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Joe's***DRAFT**~~SECRET~~Sino-Soviet Economic Relations, 1950-57

The Soviet Union, during the period 1950-57, has provided economic, military, technical, and industrial support which has enabled Communist China to achieve remarkable progress in its program of rapid industrialization and militarization. Since 1950, the USSR has extended loans to China amounting to about \$1325 million. Economic development loans amounted to \$430 million, special loans covering the return to Chinese ownership of the four Sino-Soviet joint stock companies accounted for \$75 million, and the remainder represented military loans of \$820 million. China is estimated to have repaid about \$450 million since 1954 of the total Soviet credits received.

Communist China and the USSR are each other's principal trading partner. In 1950 the Soviet Union accounted for 26 percent (\$320 million) of China's

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total trade of \$1,215 million. The peak year for Sino-Soviet trade was 1955 when China's total trade was valued at \$3,100 million of which the USSR accounted for \$1,705 million or 55.0 percent. In 1956 the USSR's share in the total trade of China (\$3,175 million) dropped to 46.0 percent ^{or} \$1,460 million thereby reflecting the absence of special Soviet loans. Nevertheless, excluding special loans and credits, Sino-Soviet commodity trade on current account apparently reached an all time maximum in 1956. Provisional information ^{for 1957} indicates that Sino-Soviet trade was at a level of about \$1,285 million.

Table 1
Dollar Value of Communist China's Foreign Trade *
1950-1957

	Million US dollars							
	1950	1951	1952	1953	1954	1955	1956	1957
 Bloc Trade								
USSR	320	750	965	1,170	1,250	1,705	1,460	1,285
European Satellites	25	220	345	370	425	465	505	525
Far Eastern Satellites	<u>5</u>	<u>20</u>	<u>30</u>	<u>50</u>	<u>95</u>	<u>125</u>	<u>120</u>	<u>105</u>
Total Bloc	350	990	1,340	1,590	1,770	2,295	2,085	1,915
Non-Bloc Trade	<u>865</u>	<u>920</u>	<u>580</u>	<u>750</u>	<u>625</u>	<u>805</u>	<u>1,090</u>	<u>1,160</u>
Total Trade	1,215	1,910	1,920	2,340	2,395	3,100	3,175	3,075

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Table II
Percentage Distribution by Dollar Value of the Foreign Trade
of Communist China**

1950-1957

	Percent of Total Trade							
	1950	1951	1952	1953	1954	1955	1956	1957
Bloc Trade								
USSR	26.3	39.3	50.3	50.0	52.2	55.0	46.0	41.8
European Satellites	2.1	11.5	17.9	15.8	17.7	15.0	15.9	17.1
Far Eastern Satellites	<u>.4</u>	<u>1.0</u>	<u>1.6</u>	<u>2.1</u>	<u>4.0</u>	<u>4.0</u>	<u>3.8</u>	<u>3.4</u>
Total Bloc	28.8	51.8	69.8	67.9	73.9	74.0	65.7	62.3
Non-Bloc Trade	<u>71.2</u>	<u>48.2</u>	<u>30.2</u>	<u>32.1</u>	<u>26.1</u>	<u>26.0</u>	<u>34.3</u>	<u>37.7</u>
Total Trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Based on a multiple exchange rate system: In Sino-Soviet bloc trade 1 yuan = ruble: \$0.25; in China's trade with the West 2.46 yuan = \$1.00.

** These figures differ from those announced by the Chinese on distribution of the yuan value of trade because of the Chinese multiple rate system.

The composition of trade between China and the USSR reflects the complementarity of the two economies. Thus, Soviet exports consist largely of

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machinery and equipment for China's industrialization program and China's exports to the USSR are primarily foodstuffs and raw materials. Exchanges of certain bulk products between China and the Soviet Far East, however, reflect more the proximity to China of this particular region of the USSR, than the overall economic complementarity of the two countries.

China's exports to the USSR have increased to more than four times the level in 1950, expanding from \$188 million to \$740 million in 1957. China is in a favorable position to supply certain bulk products to contiguous areas of the USSR, such as the Soviet Far East and parts of Siberia which are considerably removed from Soviet source of supply. Thus the transport facilities used in Soviet trade with these areas are less heavily taxed.

Chinese imports of industrial equipment and complete installations from the USSR have made a major contribution to the economic development of China. During the First Five Year Plan (1953-57) China imported about 40 percent of its capital equipment requirements, of which more than half came from the USSR.

During the Second Five Year Plan (1958-62), however, China will place greater

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reliance on its own resources. [The Chairman of the National Planning Commission, Li-Fu-chan, has pointed out that if smaller-scale plants were planned, many factories and mines could be designed by the Chinese themselves. Li further stated that "except for a few large enterprises and precision machines to be built with the help of the Soviet Union and fraternal countries new factories and mines in general should strive to provide 70 to 80 percent of equipment by themselves."

Among the other major imports during the period 1953-56, China received from the Soviet Union about 5 million tons of petroleum and petroleum products, 2 million tons of steel (including castings, prefabricated steel and other such products), over 2500 sets of metal-cutting machine tools, 9000 farm machines, and large quantities of other commodities.

Financing Sino-Soviet Commodity Trade, 1950-57

During this period of eight years, the value of total trade between China and the USSR amounted to \$8.9 billion (\$5.6 billion rubles). China exported goods valued at \$4 billion (about 16 billion rubles) to the USSR

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and in turn received goods from the Soviet Union valued at \$4.8 billion
(about 19 billion rubles). This resulted in a cumulative trade deficit
for China of \$781 million for the period 1950-57 (cf. Table III below).

Table III

Estimated Value of Sino-Soviet Trade

Imports, Exports, and Trade Balances of Communist China

1950-57*

Year	Million dollars			
	Total Trade	Exports	Imports	Trade Balances
1950	320	183	137	46
1951	750	308	442	-134
1952	965	413	552	-139
1953	1,170	474	696	-222
1954	1,250	563	687	-124
1955	1,705	636	1,069	-433
1956	1,460	745	715	30
1957 (Provisional)	<u>1,285</u>	<u>740</u>	<u>545</u>	<u>240</u>
Total	48,905	4,062	4,843	-781

* Derived from trade information released by Communist China and the USSR.

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Except for the two years 1950 ^{and 1957} and 1956, China's imports from the Soviet

Union have exceeded its exports to the USSR. Part of the aggregate trade deficit accumulated during the 1950-57 period was financed by industrial credits and part was apparently financed by military credits.

During 1951-55 when China incurred an import surplus each year in its trade with the USSR (Table III) the amounts were ^{fairly stable} uniform with the exceptions of 1953 and 1955. In these years the large import surplus represented large amounts of military goods delivered to China by the USSR. These deliveries probably resulted from orders placed by China for Soviet military equipment during the Korean War. In 1955 the Soviet Union, when Soviet forces withdrew from Port Arthur, Manchuria, turned over military goods to China under a loan estimated at \$288 million. In addition to this military material, included in 1955 imports from the USSR was \$75 million representing Soviet shares in the four Sino-Soviet joint stock companies retroceded to China in 1955.

In 1956 China was able to reverse its balance of trade position with the USSR and show a trade surplus of about \$30 million. In 1957 provisional

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information indicates an even larger surplus amounting to \$195 million. *yes, table full. wrong?*

This trend in China's balance of trade with the USSR should continue, reflecting expanded Chinese exports in repayment of USSR loans and credits.

Information regarding non-trade items is not sufficiently comprehensive to permit an estimate to be made of the overall balance of payments between the USSR and China. It is apparent, however, that the deficit in commodity trade was the most important element in the Sino-Soviet balance of payments and that the annual trade deficits were undoubtedly compensated by drawing on Soviet military and economic credits. Since 1950, the USSR has extended military and economic credits amounting to about \$1,325 million. Thus drawings on Soviet credits during the 1950-1957 period were more than adequate to compensate for the cumulative trade deficit of \$781 million.

The following (Table IV) summarizes Soviet loans to China during the period 1950-57, showing utilization and repayment by China.

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Table IV

USSR Loans to Communist China, Utilization and Repayments, 1950-57

Year	Loans Total a/	Utilization		Repayments by China
		Industrial	Military and Other	
1950-52	544	180	364	
1953	110	60	50	
1954	221	103	118	33
1955	414	51	363 b/	120
1956	30	30	0	149
1957	<u>6</u>	<u>6</u>	<u>0</u>	<u>152</u>
Totals	1,325	430	895	454

a. Soviet loans to China during the period 1950-57 amounted to 5,294 million yuan. Converted at exchange rate of 4 yuan:U.S. \$1.00.

b. Includes estimated \$75 million for Joint Stock companies returned to China by the USSR.

Soviet Economic Aid to Communist China

Industrial Projects

The keystone of Sino-Soviet economic relations during recent years has been contained in the 211 major projects being built with Soviet aid and

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technical assistance. These projects have cemented the bond between the two countries and have become the core of China's industrialization program. The existence of these projects insures that the USSR will continue to be China's leading trade partner during the second Five Year Plan (1958-62). The USSR has announced that the total cost of industrial equipment and technical services to be furnished China for these 211 industrial projects is \$2,025 million.

Soviet participation in the Chinese industrialization program began in 1950 following the signing of the Sino-Soviet treaty of Friendship, Alliance, and Mutual Assistance. Under this pact the USSR agreed to supply Communist China with equipment and other materials for the restoration and building of 50 industrial enterprises. A separate agreement provided for a Soviet loan of \$300 million to China. In 1953 the USSR agreed to assist in the expansion and construction of an unstated number of electric power stations. In the same year an agreement was signed providing for economic and technical assistance in the construction and renovation of 91 additional enterprises.

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In October 1954, announcement was made of protocols by which the USSR granted an additional \$130 million credit for economic development and assistance for the construction of 15 more industrial enterprises in China. The protocols also provided for the sale of additional equipment for the enterprises valued at \$100 million. The most recent agreement was signed in 1956 and provided for 55 additional industrial enterprises to be constructed with Soviet assistance during the final years of the First Five Year Plan and the early years of the Second Five Year Plan. Equipment for these new projects was valued at \$625 million.

The two Soviet industrial loans to China thus total \$430 million. The 1950 loan of \$300 million was drawn on by China over a period of 5 years beginning in January 1950. Repayment of this loan began in 1954 and is being made in 10 annual installments of \$30 million, plus interest at the rate of 1 percent per annum. The second Soviet loan of \$130 million was extended to China in 1954 and was fully utilized by the end of 1957. In effect the 1954

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loan alleviated the burden of servicing the 1950 and other loans during the first three years of repayment (1954-56).

The following is a summary of Soviet economic assistance to China during the period of 1950-57.

Table V
Soviet Economic Assistance to Communist China
1950-57

Date of Agreement	Economic Credits (million US \$)	No. of Projects Involved	Value of Complete Sets of equipment <u>a/</u>	
			(million US \$)	(million rubles)
February 1950	300	50	--	--
September 1953	None	91 <u>b/</u>	1,300 <u>c/</u>	5,200 <u>c/</u>
October 1954	130	15	100	400
April 1956	<u>None</u>	<u>55</u>	<u>625</u>	<u>2,500</u>
Totals	\$430	211	¹ \$3,025 <u>d/</u>	8,100

a. Includes technical assistance related to these projects.

b. Agreement signed to deliver equipment for a total of 141 projects including the 50 enterprises then being built or renovated.

c. This sum includes the value of equipment and technical assistance for the total 141 projects.

d. Converted at the official rate of 4 rubles:U.S. \$1.00.

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Soviet assistance for these projects is comprehensive, involving the selection of factory sites, collection of data for planning purposes, supply of the equipment, supervision of construction at the site, installation of machinery, and guidance in the trial production stage. Major emphasis of the Soviet aid program in China has been on the reconstruction, expansion, and construction of iron and steel plants, heavy machinery factories, and electric power installations. (See Table VI below)

Table VI

Number of Major Projects in Communist China Receiving Soviet Assistance, Under Construction or Completed*
1950-57

Industry	Number of Projects Under Construction		Number of Projects Completed
	<u>Verified</u>	<u>Probable</u>	<u>Verified</u>
Iron and steel	19	2	16
Machins	26	11	13
Electric power	22	6	10
Coal	11	10	8
Aircraft	1	-	1
Chemical	8	2	4
Nonferrous	3	-	3
Paper	1	-	1

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Industry	Number of Projects Under Construction		Number of Projects Completed
Textile	3	-	3
Shipbuilding	3	-	2
Communications	<u>1</u>	<u>-</u>	<u>-</u>
Totals	100	31	61

* The above estimates represent the best judgement of ORR as of 1 January 1958.

The Chinese Communist originally planned to start construction of 145 projects in the First Five Year Plan but no more than 131 were begun by the end of 1957. The Chinese have reported a total of 67 projects in full or partial operation at the end of 1957, of which 61 can be verified. (See Table VI above). Thus about 70 percent of the 211 major projects are scheduled to be completed during the Second Five Year Plan.

One of the most important of the 211 major projects being constructed with Soviet assistance is the Anshan iron and steel complex in Northeast China. The Chinese state that two-thirds of the capital construction at

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* *Retrospectively*, components of the An-shan Iron and Steel Combine -- such as individual blast furnaces -- are reported by the Chinese Communist as separate projects receiving Soviet assistance.

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Anshan has been designed with Soviet help. Under the original plan, the Anshan complex was scheduled to be producing annually 2.5 million tons of pig iron, 3.22 million tons of steel, and 2.48 million tons of steel products by 1960. According to the Chinese, these goals were almost achieved by the end of 1957.

The USSR has designed and is assisting in the construction of two other iron and steel complexes, one at Wuhan (Hubei province) and Pao-t'ou (Inner Mongolia). Both of these major projects are planned for completion by 1962.

Nearly 60 percent of the iron and steel production of China in 1957 was produced in plants built with the assistance of the USSR. Moreover, Soviet assistance for this industry should facilitate resolution of a number of current problems, namely, concentration of production at Anshan, inadequate development of ore mining facilities, and the inability to supply an increasing variety of steels required by the advancing technological level of Chinese industry. These problems are being met to a degree by construction of the integrated plants at Pao-t'ou and Wuhan, and of some 18 small and

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medium size plants located throughout the country near ore deposits and local consumption centers.

China has imported a large volume of Soviet equipment for the exploration and development of petroleum resources. This equipment played an important role in the expansion of petroleum production in China from 436,000 tons in 1952 to 1,455,000 tons in 1957. The completion of the new refinery at Ian-Chou, in particular, will represent a significant addition to refinery capacity and will also provide China with its first modern refinery capable of producing aircraft engine fuels. Although China has increased its capability to provide certain accessory material and equipment from domestic production it must continue to import essential petroleum equipment.

The USSR designed and constructed the chemical industry center in North-east China. The center, including a chemical fertilizer factory, a calcium carbide factory, and a dyestuffs factory, was opened in October 1957. China plans to increase investment in the chemical industry during the Second Five Year Plan, and to support in particular its agricultural program by expanding

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its production capabilities for fertilizers. Soviet assistance is expected to be utilized in expanding the capacity of the installations at Kirin and in other localities as well.

The Soviet Union also is making a substantial contribution to the power industry in China. Power plants built with Soviet aid were reported to account for about 680,000 kw out of the 1957 power plant capacity of approximately 4.4 million kw. China has an estimated electric power output of 17 billion kwh, which is higher than India's (9.6 billion kwh) but low compared to Japan's (72 billion kwh) and the USSR's (192 billion kwh).

During the First Five Year Plan (1953-57) Communist China depended upon the USSR for the bulk of its imports of industrial equipment. Thus, according to a Chinese official of the State Planning Commission, the projects constructed with Soviet assistance in the coal, electric power, iron, steel, copper, aluminum, and lathe-machine manufacturing industries had, during 1953-56, accounted for 30 to 90 percent of newly added productive capabilities. During the Second Five Year Plan (1958-62) China aims to produce 70-80 percent

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of its own industrial equipment requirements and thereby to reduce its dependence on such imports. There are indications that this goal is already being achieved. In 1957, for example, the Fulaerchi heavy machine-building plant revised its annual investment plan and cancelled equipment orders from the Soviet Bloc valued at \$8 million (32 million yuan) in favor of domestically-produced lathes and cranes.

Soviet Technical Assistance to China

Soviet technical assistance has become an integral part of all phases of China's industrial development, with Soviet specialists employed at all levels of and in all branches of the Chinese economy. An acute shortage of trained Chinese personnel has fostered dependence upon large numbers of Soviet technicians during the past several years. The Sino-Soviet Joint Stock companies formed in 1950 and 1951, for example, were organized and operated primarily by Soviet managerial and technical personnel. The industrial projects for which Soviet assistance is being provided have required

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the services of many Soviet experts. In addition to providing industrial technicians, the USSR has also sent economic advisors to assist in the formulation and administration of China's development program.

The precise number of Soviet advisors, specialists, and technicians in China is not known. In 1950 China required a greater number of Soviet technicians because of its low level of industrial competence and its entrance into the Korean war which brought large numbers of Soviet military specialists and advisors. The subsequent development of technically-trained Chinese has since permitted a sharp reduction in the number of Soviet specialists and technicians in China. The Korean truce and the withdrawal of Soviet forces from Port Arthur also permitted the withdrawal of large numbers of Soviet military specialists.

A substantial demand for Soviet technicians will probably continue during the Second Five Year Plan primarily because these experts will be required on Soviet projects that are still under construction or in the planning stage. In addition, Soviet technicians and advisors will continue

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to serve in other sectors of the Chinese economy. Soviet petroleum and uranium specialists are engaged in prospecting and exploring for deposits in China. The USSR will continue to provide technical assistance in the field of nuclear energy. As a result of Soviet assistance and equipment, China now has a 6.5-10 megawatt thermal research reactor and 25,000,000 electron-volt cyclotron. These facilities are the largest in the Bloc outside the USSR.

In addition to providing technical assistance and on-the-job training in China, the Soviet trained about 7,000 Chinese workers, technicians, and factory administrators in the USSR during the First Five Year Plan. Most of these men were trained for operational work in the factories and other installations being constructed with Soviet assistance. The Anshan iron and steel company alone sent over 700 people to the Soviet Union for practical training.

Less tangible than technical assistance in the form of expert advice and training, Soviet transfers of scientific and technical information have been of considerable importance in implementing China's industrialization program.

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Under the Sino-Soviet Scientific and Technical Cooperation Agreement of October 1954, the USSR has provided China with blueprints for the construction of 600 kinds of factories and enterprises, designs for 1,700 sets of machinery and equipment, and substantial information on production processes. Additional agreements were signed in January 1956--one for joint development of the power resources, navigation and irrigation of the Heilungkiang River and a second for technical cooperation in civil aviation. Knowledge and data obtained in this manner from the USSR have been useful to China even on projects with which the Soviet have not been involved.

Consequence^s of Sino-Soviet Relations

Communist China appreciates the technical, economic, military and industrial assistance which the Soviet Union has provided ^{but} by the Chinese are not object in their gratitude. They have indicated an awareness that there is a high degree of complementarity in trade between themselves and the Soviet Union; in addition, they are rapidly repaying the Soviet economic and military loans; and they realize that ^{-they hold on a rope} China is of considerable importance in the balance of power between the Bloc and Free World.

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China was the first nation in Asia to embrace Communism and apply totalitarian methods to the promotion of economic development under conditions similar to those existing elsewhere on the continent. If China can accomplish a sharp rise in per capita income and show substantial economic progress, the impact of this success may be felt throughout Asia. Dissident elements in free countries in that area, anxious to criticize the incumbent government, and impatient to find short-cuts to industrial development, may ignore the consequences of totalitarian control and attempt to follow in the footsteps of the Chinese Communists. Moreover, the significance of the USSR's role in fostering rapid industrialization in China has attracted the attention of leaders of other Asian nations.

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